1988 FINANCIAL STATEMENTS

THE MUNICIPALITY OF METROPOLITAN TORONTO · 1953 ·

89-05816/

Compiled by:

Treasury Department
Municipality of Metropolitan Toronto
10th Floor, West Tower, City Hall
Toronto, Ontario M5H 2N1

Telephone: (416) 392-8427

Additional copies are available at the above address

The Municipality of Metropolitan Toronto was incorporated in 1953 as a regional government by an act of the Province of Ontario. It is located on the north shore of Lake Ontario and consists of six municipalities, namely, the City of Toronto, the City of North York, the City of Scarborough, the City of Etobicoke, the City of York, and the Borough of East York. The Municipality covers 632 square kilometres extending 40 kilometres along the north shore of Lake Ontario and 16 kilometres inland.

The principle underlying the distribution of responsibilities between the Municipality of Metropolitan Toronto and its constituent area municipalities recognizes the need to unify those functions which are common to the whole area, while at the same time permits local, personal administration of matters of local concern. Accordingly, amalgamated services assigned to the Metropolitan Corporation include public transit, police protection, welfare administration, ambulance services and elderly persons housing; services which are the exclusive responsibility of the area municipalities in the Metropolitan federation include fire protection, garbage collection, water supply distribution, minor arterial roads and the collection of taxes.

The Corporate logo, depicted above, symbolizes the six area municipalities, independent, yet interdependent, forming a union whose strength is greater than that of its individual parts.

CONTENTS

Six-Year Financial Review

Financial Statements

Municipality of Metropolitan Toronto

Metropolitan Toronto Waterworks System

The Financial Statements of the Municipality of Metropolitan Toronto reflect the activities of the Municipality **not consolidated** with its local boards, commissions and municipal enterprises. Consolidated financial statements for the Municipality will shortly be published as part of the Annual Report of the Commissioner of Finance.

The Municipality of
Metropolitan Toronto

Treasury Department
City Hall, West Tower, 10th Floor
Toronto, Ontario, Canada M5H 2N1
Telephone: (416) 392- Telex: 06-23472

Address all correspondence to
John L. Pickard, B.Com., F.C.A.
Commissioner of Finance and Treasurer

M.A. Brooks I.P.F.A.
Director of Financial Services and Deputy Treasurer

The Chairman and Members
of the Council
of the Municipality of Metropolitan Toronto

FINANCIAL STATEMENTS 1988

INTRODUCTORY

I am pleased to present the Financial Statements of the Municipality of Metropolitan Toronto for the year ended December 31, 1988. These statements reflect the operations of the Municipality which at this stage are not consolidated with its local boards and municipal enterprises. A comprehensive consolidated financial overview will be included as part of the subsequent Annual Financial Report for fiscal 1988. In the meantime I have commented in some detail on the 1988 financial results with a view to providing an overview of 1988 fiscal activity.

Also presented herein are the Financial Statements of the Metropolitan Waterworks System, a municipal enterprise of the Metropolitan Corporation.

CURRENT OPERATIONS

The current fund surplus recorded by the Metropolitan Corporation in 1988, in excess of $33 million, represented the 35th consecutive annual surplus and is attributable to a number of circumstances. Briefly stated, total operating expenditures amounted to approximately $15 million lower than budget while total operating revenues exceeded budget by $18 million.

Operating expenditures

In 1988, total gross operating expenditures amounted to $1,737,896,000 (1987 - $1,560,063,000) as compared with a total gross operating budget of $1,752,840,000.

dollars in thousands

	1988 Budget	1988 Actual	Budget Comparison	1987 Actual
General government	$ 116,973	$ 116,272	$ 701	$ 100,673
Protection to persons and property	444,064	439,345	4,719 (a)	409,511
Transportation services	273,928	267,006	6,922 (b)	241,281
Environmental services	168,390	176,384	(7,994)(c)	154,174
Health services	54,826	55,062	(236)	49,138
Social and family services	589,509	580,786	8,723 (d)	508,226
Recreation and cultural services	91,345	89,934	1,411 (e)	85,003
Planning and development	13,805	13,107	698	12,057
	$1,752,840	$1,737,896	$ 14,944	$1,560,063

(a) Underexpenditures in police payroll costs due to actual staffing levels being lower than budgeted.
(b) Higher than anticipated transit ridership and general transit revenue; lower than anticipated transit payroll and other operating costs; underexpenditures in roads, traffic and winter maintenance programs.
(c) Overexpenditure due to purchase of additional compaction equipment for landfill operations and greater than estimated cost of recycling operations.
(d) Higher than estimated proportion of GWA caseloads eligible for 100% subsidy.
(e) Operating income at Okeefe Centre higher than anticipated; net cost of operation of Metro Toronto Zoo lower than budget.

Operating revenues

In 1988, total operating revenues amounted to $1,713,347,000 (1987 - $1,565,150,000) as compared with total budgeted revenues of $1,695,127,000.

dollars in thousands

	1988 Budget	1988 Actual	Budget Comparison	1987 Actual
Taxation - (Levy on area municipalities, supplementary taxes)	$ 762,762	$ 763,301	$ 539	$ 726,707
Ontario grants	643,448	646,194	2,746	576,765
User charges	212,005	219,504	7,499	192,857
Other revenue	76,912	84,348	7,436	68,821
	$1,695,127	$1,713,347	$18,220	$1,565,150

Taxation

The general tax levy on Metropolitan Toronto's six constituent area municipalities increased 5.5 per cent. over 1987, while the rate of growth in the assessment upon which the Metropolitan levy is apportioned increased from 1.5 per cent. in 1987 to 2.3 per cent. in 1988. Revenue from taxation in 1988 includes $21,128,000 received in respect of supplementary taxes levied during the year (1987 - $21,216,000).

Ontario grants

The total of grants received from the Province of Ontario during 1988 at $646,194,000 represented 37.2 per cent. of gross expenditures, as compared with 37.0 per cent. in 1987. While the rate for the General Support grant calculation remained unchanged at 6% of the "net general dollar levy" of the previous year, the base was expanded in 1988 to include the Police Household Grant. This resulted in an increase in the General Support Grant from $53,542,000 in 1987 to $60,057,000 in 1988, an increase of $6,515,000 or 12% over 1987.

The principal reason for the favourable variance of $2,746,000 is the higher than anticipated percentage of provincial subsidy applicable to the general welfare assistance program during the year.

User charges

Higher revenue as a result of increased tipping fees at landfill sites and transfer stations together with higher than projected revenue from the surcharge on the sale of water and agreements for waste and sewage treatment account principally for the positive budget variance in this category.

Other revenue

The favourable variance of $7,436,000 is due primarily to a transfer of $1,522,000 from a metropolitan reserve account to meet arbitration and legislation settlements, combined with higher than anticipated interest earnings and parking violation tag revenue received during the year.

CAPITAL OPERATIONS

Gross capital expenditure in 1988 amounted to $354,170,000, an increase of 20% compared with 1987. Of this sum, $108,774,000, or 31%, was spent on expansion and improvements to the transit system, while sewage and refuse disposal capital expenditure, at $76,698,000, accounted for 22%. Land acquisition costs in respect of the new headquarters for the Metropolitan Corporation amounted to $52,159,000 (15%), while capital expenditures incurred for the purposes of the Metropolitan Police Commission totalled $25,369,000 (7%).

During 1988, convenient surface transit to Toronto's downtown waterfront area began to take shape as the 2.13 km., $58.3 million Harbourfront Light Rail Transit line passed the halfway point of construction. In addition, a new $25.6 million garage, providing maintenance and storage for up to 250 buses, was opened in 1988, and sixty new H-6 subway cars entered service during the year.

Total financing of capital expenditures during 1988 amounted to $275,296,000, comprised principally of provincial capital grants in the sum of $112,798,000 (41%), contributions from current funds of $85,386,000 (31%) and long term debt incurred of $32,400,000 (12%). In addition, other miscellaneous sources of capital financing such as proceeds from the sale of capital assets and sundry capital contributions and recoveries totalled $32,890,000 (12%) while excess sinking fund investment earnings on matured debenture debt amounted to $11,822,000 (4%).

LONG RANGE CAPITAL AND FINANCIAL PLANNING

Capital expenditure financed from current funds

Metropolitan Council's long range capital and financial planning policy for its general municipal purpose and municipal enterprise operations is designed to ensure a balanced financing mix between internally generated revenues and debenture financing for the Municipality's capital expenditures and other long term capital improvements. The capital financing policy adopted is designed to stabilize the contribution of the revenue fund towards capital expenditures at a level generally of 50 per cent. of the actual net capital financing requirements for each year. The current policy of Council is to allocate within the operating budget an amount equivalent to a levy of 6 mills to meet this expenditure. To the extent that this annual provision to finance capital

expenditures out of current funds exceeds this limit, the excess is transferred to a capital financing stabilization reserve; conversely, if such annual provision amounts to less than the 50 per cent. guideline, the shortfall is met by a draw upon the reserve.

Net capital expenditures in 1988 to be financed up to 50 per cent. by the current levy in accordance with this policy amounted to $66,531,000. The 1988 current levy provided the sum of $55,725,000 and accordingly the full amount available in the Capital Financing Stabilizing Reserve in the sum of $6,123,000 was utilized towards the current contribution financing of the net capital expenditures for the year. The balance of $4,683,000 will be financed by a future debenture issue.

Guidelines for future capital expenditure

In 1985, Metropolitan Council approved a ten-year plan of capital expenditure and associated debt management guidelines, following a comprehensive financial planning study designed to identify measures to further control the Corporation's capital expenditures and debt servicing charges within limits considered necessary to achieve multi-year financial targets established by Council. The study projected over a ten-year period the levels of net capital expenditures in various functional areas, with a view to determining priorities as between competing service demands for capital resources and relating such multi-year expenditure levels and priorities to debt management policy guidelines.

Recommendations included:

a) specific net capital expenditure targets for the next five years and further five-year targets to be utilized as a planning guide;
b) specific criteria for the management of debt;
c) a process to review and update the plan on an annual basis.

The expenditure targets approved by Metropolitan Council are based on three key guidelines:

a) percentage of fixed debt charges in the levy should average no more than 15 per cent.;
b) percentage of net capital expenditure to be raised in the levy should be no more than 50 per cent.; and
c) the mill rate should increase each year by no more than the estimated inflation rate within the economy as measured by the Consumer Price Index in the absence of significant expansion of existing programs or the introduction of new programs..

These guidelines form the basis of the Budget Sub-Committee's review of future Five-Year Capital Works Programs; any revisions to long term capital expenditure targets arising from such reviews are the subject of subsequent reports to Metropolitan Council.

It is intended that an update of the 1985 study of capital expenditure levels and priorities, together with associated debt management policy guidelines, will be presented to Metropolitan Council in the near future: revised overall corporate targets, together with targets for individual departments, boards and agencies, will be determined at that time.

DEBT STRUCTURE

The table below details the net long term liabilities of the Municipality of Metropolitan Toronto over the last six years in respect of its own general municipal activities and municipal enterprises (exclusive of those of the Area Municipalities). Net long term liabilities in respect of general municipal purposes are also expressed on a per capita basis and as a percentage of taxable assessment.

dollars in thousands, except per capita figures

	General Municipal Activities	Per Capita	Percentage of Taxable Assessment	Municipal Enterprises
1983	$442,971	$209	5.6	$119,055
1984	424,222	199	5.3	108,171
1985	399,111	186	4.9	97,590
1986	408,783	192	5.0	83,296
1987	443,104	208	5.3	68,047
1988	**405,040**	**190**	**4.7**	**52,821**

Metro Council's capital financing policy involving a "pay-as-you-go" annual provision of about 50 per cent. of capital borrowing requirements, as previously described, has been over the last several years one of the most significant contributing factors in the stabilization of the Corporation's long term debt.

DEBT SERVICING

Also during the past six years, debt service charges for the general municipal purposes of the Metropolitan Corporation, as a percentage of the annual general tax levy on Metropolitan taxpayers, have declined from 16.0 per cent. to 13.9 per cent. and as a percentage of total operating expenditure from 7.9 per cent. to 6.1 per cent. as shown by the following tables:

dollars in thousands

	Debt Charges	General Tax Levy	Percentage
1983	$87,744	$ 547,650	16.0
1984	91,797	606,231	15.1
1985	93,936	635,820	14.8
1986	93,810	674,474	13.9
1987	98,695	726,707	13.6
1988	**106,341**	**763,301**	**13.9**

	Debt Charges	Total Operating Expenditure	Percentage
1983	$87,744	$1,112,253	7.9
1984	91,797	1,219,647	7.5
1985	93,936	1,310,864	7.2
1986	93,810	1,402,540	6.7
1987	98,695	1,560,063	6.3
1988	**106,341**	**1,737,896**	**6.1**

RESERVES AND RESERVE FUNDS

The table below lists the year end balances of Reserves and Reserve Funds of the Municipality over the last six years in relation to total operating expenditures.

dollars in thousands

	Reserves and Reserve Funds	Total Operating Expenditures	Percentage
1983	$46,124	$1,112,253	4.1
1984	72,336	1,219,647	5.9
1985	72,020	1,310,864	5.5
1986	104,876	1,402,540	7.5
1987	146,902	1,560,063	9.4
1988	**238,130**	**1,737,896**	**13.7**

In 1988, Metropolitan Council significantly increased its reserves and reserve funds through provisions for additional refuse disposal capacity, pollution control purposes, public liability insurance and for the capital costs of establishing a new headquarters for the Metropolitan Corporation.

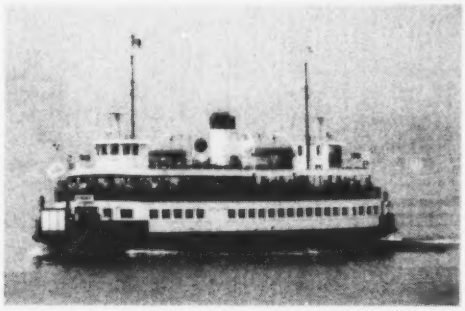
CONCLUSION

The Metropolitan Corporation's 1988 fiscal performance exhibited stability and strength and the Municipality continued to retain the highest possible credit rating in the international bond market. The ongoing pressure to respond to the demand for further capital service improvements, however, combined with the emerging movement towards fiscal retrenchment on the part of our senior levels of government underscores even further the importance of prudent and sound financial management policy in addressing the challenges and opportunities of the future.

Respectfully submitted,

John L. Pickard, B. Com., FCA
Commissioner of Finance and Treasurer

July 17, 1989



SIX-YEAR FINANCIAL REVIEW

THE MUNICIPALITY OF METROPOLITAN TORONTO · 1953 ·

MUNICIPALITY OF METROPOLITAN TORONTO

SIX-YEAR FINANCIAL REVIEW

not subject to audit

		1988	1987
Statistics	Population at the end of the year	2,128,270	2,125,520
	Area in acres at the end of the year	154,584	154,584
	Employees - continuous full time	15,514	14,826
	- part time	2,825	2,701
Assessment	Taxable assessment upon which the year's rates of taxation were set		
	Residential and farm	$4,069,523	$4,026,592
	Commercial and industrial	4,499,882	4,350,649
		$8,569,405	$8,377,241
	Per capita	$ 4,026	$ 3,941
	Commercial and industrial, and business as a percentage of taxable assessment	52.5%	51.9%
Current Operations	Revenue for general municipal services		
	Taxation - (Levy on area municipalities, supplementary taxes)	$ 763,301	$ 726,707
	Ontario grants	646,194	576,765
	Other grants	1,649	1,883
	User charges	219,504	192,857
	Other revenue	82,699	66,938
		$1,713,347	$1,565,150
	Expenditure - general municipal	$1,737,896	$1,560,063
	Transfers to the school boards	$1,379,891	$1,299,401
	Accumulated net revenue at end of year	$ 33,164	$ 57,713

dollars in thousands except per capita figures

1986	1985	1984	1983
2,130,938	2,145,900	2,131,942	2,124,085
154,584	154,584	154,584	154,584
14,694	14,266	14,325	14,130
2,259	1,688	1,358	1,195
$3,935,859	$3,930,227	$3,892,227	$3,816,298
4,315,798	4,211,612	4,133,651	4,045,484
$8,251,657	$8,141,839	$8,025,878	$7,861,782
$ 3,872	$ 3,794	$ 3,765	$ 3,701
52.3%	51.7%	51.5%	51.5%
$ 674,474	$ 635,820	$ 606,231	$ 547,650
507,980	459,057	425,253	397,939
1,500	949	2,442	2,065
170,927	147,627	124,979	112,997
62,476	69,739	56,894	57,608
$1,417,357	$1,313,192	$1,215,799	$1,118,259
$1,402,540	$1,310,864	$1,219,647	$1,112,253
$1,297,950	$1,184,910	$1,079,304	$1,001,205
$ 52,626	$ 37,809	$ 35,481	$ 39,329

MUNICIPALITY OF METROPOLITAN TORONTO

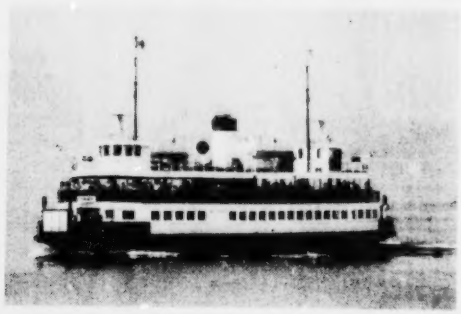
SIX-YEAR FINANCIAL REVIEW (continued)

not subject to audit

		1988	1987
Net Long Term Liabilities	General municipal activities	$ 405,040	$ 443,104
	Per capita	$ 190	$ 208
	Percentage of taxable assessment	4.7%	5.3%
	Municipal enterprises	$ 52,821	$ 68,047
	Charges for net long term liabilities		
	General municipal activities	$ 106,341	$ 98,695
	Per capita	$ 50	$ 46
Capital Operations	Capital financing during the year		
	Contributions from own funds	$ 99,846	$ 85,197
	Long term liabilities incurred	32,400	91,048
	Ontario grants	112,798	128,235
	Other	30,252	25,607
		$ 275,296	$ 330,087
	Capital expenditure during the year	$ 354,170	$ 294,901
Reserves and Reserve Funds	Balance at end of year	$ 238,130	$ 146,902

dollars in thousands except per capita figures

	1986	1985	1984	1983
	$ 408,783	$ 399,111	$ 424,222	$ 442,971
	$ 192	$ 186	$ 199	$ 209
	5.0%	4.9%	5.3%	5.6%
	$ 83,296	$ 97,590	$ 108,171	$ 119,055
	$ 93,810	$ 108,868	$ 91,797	$ 87,744
	$ 44	$ 51	$ 43	$ 41
	$ 83,472	$ 70,574	$ 55,523	$ 81,598
	64,243	11,645	18,901	38,160
	144,138	141,394	122,869	115,126
	20,063	20,649	22,549	20,879
	$ 311,916	$ 244,262	$ 219,842	$ 255,763
	$ 323,285	$ 268,466	$ 228,326	$ 274,771
	$ 104,876	$ 72,020	$ 72,336	$ 46,124



THE MUNICIPALITY OF METROPOLITAN TORONTO · 1953 ·

MUNICIPALITY OF
METROPOLITAN TORONTO

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030
Fax: (416) 392-3754

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 28, 1989

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the balance sheet of the Municipality of Metropolitan Toronto as at December 31, 1988 and the statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Municipality as at December 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles for Ontario municipalities applied, after giving retroactive effect to the change in accounting policy as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

MUNICIPALITY OF METROPOLITAN TORONTO

BALANCE SHEET
DECEMBER 31, 1988

ASSETS	1988	1987
Unrestricted		
Cash	$ 2,251	$ 2,963
Investments (note 4)	125,592	290,821
User charges receivable	43,870	28,215
Accounts receivable (note 5)	212,192	173,927
Inventory	4,119	3,939
Prepaid expenses	21,205	13,320
Long term receivables	3,340	3,172
	412,569	516,357
Restricted		
Cash	768	690
Investments (note 4)	163,556	78,082
Accounts receivable	31,968	8,984
Other current assets	319	421
	196,611	88,177
Capital outlay financed by long term liabilities and to be recovered in future years (note 2)	405,040	443,104
	$ 1,014,220	$1,047,638

dollars in thousands

LIABILITIES AND FUND BALANCES	1988	1987
Current liabilities		
Temporary loans	$ 9,799	$ 11,332
Accounts payable and accrued liabilities	383,593	367,566
Other current liabilities (note 5)	16,980	14,633
	410,372	393,531
Net long term liabilities (notes 2, 8)	405,040	443,104
Fund balances at end of year		
To be used to offset taxation in the following year (note 10)	33,164	57,713
Unexpended capital financing (Capital operations not yet permanently financed)(note 10)	(72,486)	6,388
Reserves (note 11)	50,027	60,553
Reserve funds (note 11)	188,103	86,349
	$ 1,014,220	$1,047,638

MUNICIPALITY OF METROPOLITAN TORONTO

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1988

SOURCES OF FINANCING	1988	1987
Taxation and user charges		
Requisition on local municipalities	$2,143,192	$2,026,108
Less school board requisition	(1,379,891)	(1,299,401)
User charges	260,109	196,545
Grants		
Government of Canada	2,057	2,258
Province of Ontario	758,992	705,000
Other		
Investment income	30,964	26,862
Sale of land	5,217	8,236
Fines	42,730	30,307
Other	59,884	39,044
Proceeds from the issue of long term liabilities	32,107	89,714
Municipal fund balances at beginning of year (note 10)		
To be used to offset taxation in the following year	57,713	52,626
Unexpended capital financing (Capital operations not yet permanently financed)	6,388	(28,798)
Total financing available during the year	$2,019,462	$1,848,501

see accompanying notes

dollars in thousands

APPLIED TO	1988	1987
Current operations (note 9)		
General government	$ 72,958	$ 66,424
Protection to persons and property	420,392	387,264
Transportation services	246,206	220,186
Environmental services	148,333	134,138
Health services	49,674	44,753
Social and family services	575,809	504,449
Recreation and cultural services	76,656	71,124
Planning and development	12,907	11,922
	1,602,935	1,440,260
Capital operations		
General government	60,763	1,102
Protection to persons and property	31,661	41,847
Transportation services	154,348	169,737
Environmental services	76,727	43,163
Health services	6,408	5,612
Social and family services	15,348	15,127
Recreation and cultural services	19,167	25,487
Planning and development	199	39
	364,621	302,114
Net appropriations to reserves and reserve funds	91,228	42,026
Municipal fund balances at end of year (note 10)		
To be used to offset taxation in the following year	33,164	57,713
Unexpended capital financing (Capital operations not yet permanently financed)	(72,486)	6,388
Total applications during the year	$2,019,462	$1,848,501

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

1. ACCOUNTING POLICIES

The financial statements of the Corporation of the Municipality of Metropolitan Toronto are the representations of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs.

(a) Basis of Consolidation

(i) Consolidated entities

These financial statements reflect the assets, liabilities, sources of financing and expenditures of the revenue fund, capital fund, reserves and reserve funds of the Municipality, including the Metropolitan Board of Commissioners of Police and the Metropolitan Licensing Commission.

All interfund assets and liabilities and sources of financing and expenditures have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

(ii) Non-consolidated entities

The following entities are not consolidated:

Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Toronto Transit Commission
Gray Coach Lines, Limited
Board of Governors of Exhibition Place
Board of Management of the O'Keefe Centre
Board of Management of the Metropolitan Toronto Zoo
Board of Management of the Guild
Metropolitan Toronto Housing Company Limited
Metropolitan Toronto Housing Development Corporation
Metropolitan Toronto School Board

(iii) Accounting for school board transactions

The Statement of Operations reflects the Metropolitan Toronto Education Levy requisitioned upon the Metropolitan Toronto area municipalities and the subsequent transfer thereof to the Metropolitan Toronto School Board.

(iv) Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet.

(b) Basis of Accounting

(i) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Charges for long term liabilities

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(iii) Fixed assets

The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Operations in the year of acquisition.

(iv) Capital outlay financed by long term liabilities and to be recovered in future years

"Capital outlay financed by long term liabilities and to be recovered in future years", as reported on the Balance Sheet, represents the sum of the outstanding principal portion of unmatured long term liabilities for municipal expenditures and the long term obligations arising out of capital leases entered into by the municipality.

(v) Liabilities payable in foreign currencies

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rate prevailing at December 31, 1988.

(vi) Inventories

Inventories are valued at average cost.

2. CHANGE IN ACCOUNTING POLICY

In prior years, long term debt payable in foreign currencies was reported based upon the rates of exchange prevailing at the time the liability was incurred. In 1988, as prescribed by the Ministry of Municipal Affairs, long term debt payable in foreign currencies has been recorded at the year end exchange rate.

This change in accounting policy resulted in an increase in net long term liabilities and capital outlay financed by long term liabilities and to be recovered in future years of $9,877,000 (1987 - $22,197,000). There is no effect on the Statement of Operations. Prior year's amounts have been restated to give effect to the change.

3. TRUST FUNDS

Trust funds administered by the Municipality amounting to $86,189,000 (1987 - $26,381,000) have not been included in the Balance Sheet nor have their operations been included in the Statement of Operations.

4. INVESTMENTS

The unrestricted investments of $125,592,000 (1987 - $290,821,000) and restricted investments of $163,556,000 (1987 - $78,082,000) are reported on the Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

5. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $13,264,000 in 1988 (1987 - $11,822,000) are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other Current Liabilities".

6. PENSION AGREEMENTS

(a) Ontario Municipal Employees Retirement Fund

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of approximately 12,600 members (72%) of its staff. This plan is a defined benefit plan and specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to OMERS for current service in 1988 was $26,680,000 (1987 -$25,363,000) and is included as an expenditure on the Statement of Operations.

Under the past service provisions of the OMERS agreement, the Municipality is obligated at December 31, 1988, for an amount of approximately $3,665,000 (1987 - $4,187,000) as established for the plan. No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. In this regard $522,000 was funded in 1988 (1987 - $265,000) and is reported on the Statement of Operations.

The latest actuarial valuation conducted at January 1, 1988, indicates that OMERS is in sound financial condition and that current member and employer contribution rates appear sufficient to fund future benefits.

(b) **Other Pension Plans**

The Municipality of Metropolitan Toronto is a member in a number of other pension plans. These plans provide pensions based on length of service and final average earnings.

The amount contributed to these plans for current service in 1988 was $6,406,000 (1987 - $6,516,000) and is included as an expenditure on the Statement of Operations.

Actuarial estimates indicate that, based on projections of employees' compensation levels to time of retirement, the present value of the unfunded obligations for pension benefits relating to past service was $31,511,000 as at December 31, 1988 (1987 - $37,789,000) This balance is being funded and charged to operations as follows:

	dollars in thousands
1989 to 1992	$24,569
1993 to 1994	6,942
	$31,511

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. Expenditure for past service of $6,278,000 was made in 1988 (1987 - $9,464,000) and is reported on the Statement of Operations.

7. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Municipality. In order to provide for this past service liability the Municipality has established a Corporate Sick Pay Reserve Fund. The following local boards and municipal enterprises also participate in this reserve fund:

Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Board of Governors of Exhibition Place
Board of Management of the Metropolitan Toronto Zoo
Metropolitan Toronto Housing Company Limited

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $96,505,000 (1987 -$91,354,000) at the end of the year. A total of $6,504,000 (1987 - $5,420,000) was paid to employees who left the employment of the Municipality and the participating local boards and municipal enterprises during the current year.

Contributions to the Corporate Sick Pay Reserve Fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time, and over the next nine years, will be as follows:

	dollars in thousands		
	1989 to 1991	1992 to 1994	1995 to 1997
Municipality	$11,090	$11,090	$11,090
Other participants	805	805	805

During 1988, the contributions to the reserve fund by the Municipality and other participants amounted to $2,425,000 and $168,000 respectively. At December 31, 1988, the balance of the Corporate Sick Pay Reserve Fund was $11,241,000 (1987 - $13,867,000).

Anticipated payments over the next five years to employees of the Municipality and its participating local boards and municipal enterprises who are eligible to retire are as follows:

	dollars in thousands				
	1989	1990	1991	1992	1993
Municipality	$ 4,935	$ 5,103	$ 5,311	$ 5,514	$ 5,436
Other participants	325	354	391	373	384

8. NET LONG TERM LIABILITIES

(a) The net long term liabilities reported on the Balance Sheet are made up of the following:

dollars in thousands

	1988	1987
Total long term liabilities incurred by the Municipality, including those incurred on behalf of school boards, other municipalities and municipal enterprises and outstanding at the end of the year amount to	$1,266,300	$1,378,595
In addition, the Municipality has assumed responsibility for the payment of principal and interest charges on certain long term liabilities issued by other municipalities. At the end of the year the outstanding principal amount of this liability is	413	479
Capital leases	4,058	5,853
Long term interest free loan payable to Province of Ontario	4,199	5,839
Of the long term liabilities shown above, the responsibility for payment of principal and interest charges has been assumed by school boards, other municipalities, municipal enterprises and by the Province of Ontario. At the end of the year, the outstanding principal amount of this liability is	(531,488)	(618,192)
The total value of sinking funds and the balance in the Ministry of the Environment Debt Retirement Fund which have been accumulated to the end of the year to retire the outstanding long term liabilities included above amount to	(338,442)	(329,470)
Net long term liabilities	$ 405,040	$ 443,104

(b) Net long term liabilities - future redemption

Of the net long term liabilities reported in (a) of this note, $167,825,000 in principal payments are payable from 1989 to 1993, $97,483,000 from 1994 to 1998, and $5,200,000 thereafter.

The difference between the total of principal redemption indicated above ($270,508,000) and the total of net long term liabilities reported in note 8 (a) ($405,040,000) is related to the following two factors:

(i) Long term liabilities payable in U.S. funds reported in note (a) have been translated into Canadian funds at the exchange rate prevailing at December 31, 1988, whereas the projections of principal redemption above are based on $1 US = $1 Canadian.

(ii) The projections of principal redemption indicated above are based on the premise that actuarial sinking fund deposits (in respect of sinking fund debentures) will earn interest, capitalized yearly thereon, at a rate not exceeding 8% and which will be sufficient to repay such debentures in full at maturity.

(c) Translation of net long term liabilities payable in foreign currencies

Included in "Net long term liabilities" on the Balance Sheet is an amount of US$92,954,000 (1987 - US$122,412,000) payable in U.S. funds and translated into Canadian funds at the rate of exchange prevailing at December 31, 1988.

(d) Ontario Municipal Board

Approval of the Ontario Municipal Board has been obtained for the debenture debt reported in (a) of this note issued in the name of the Municipality.

(e) Long term liabilities incurred on behalf of area municipalities, municipal enterprises, school boards and the Province of Ontario

The Municipality is contingently liable for long term liabilities for which the responsibility for the payment of principal and interest has been assumed by its area municipalities, municipal enterprises, school boards and the Province of Ontario. The total amount outstanding as at December 31, 1988 is $531,488,000 (1987 - $618,192,000) and is not recorded on the Balance Sheet.

9. CHARGES FOR NET LONG TERM LIABILITIES

Total charges for the year for net long term liabilities which are reported on the Statement of Operations are as follows:

	dollars in thousands	
	1988	1987
Principal payments including contributions to sinking funds and the Ministry of the Environment Debt Retirement Fund	**$37,505**	$ 31,450
Interest	**68,836**	67,245
	$106,341	$ 98,695

The charges for long term liabilities assumed by the area municipalities, municipal enterprises, school boards and the Province of Ontario are not reflected in these statements.

10. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR

The balances on the Statement of Operations of municipal equity (deficit) at the end of the year consist of the following:

	dollars in thousands	
	1988	1987
For general reduction of taxation	**$33,164**	$ 57,713
Acquisition of fixed assets to be recovered through taxation	**(69,309)**	(27,504)
Acquisition of fixed assets to be financed from the proceeds of long term liabilities	**(69,309)**	(27,504)
Funds available for the acquisition of fixed assets	**66,132**	61,396
	$(39,322)	$ 64,101

Approval of the Ontario Municipal Board has been obtained for the pending issues of long term liabilities.

11. RESERVES AND RESERVE FUNDS

The total balances of reserves and reserve funds are made up of the following:

	dollars in thousands	
	1988	1987
Reserves set aside for specific purposes by Council		
Exchange stabilization	**$ 4,360**	$ 4,360
Replacement of equipment	**4,739**	5,269
Sick pay benefits	**4,117**	3,481
Capital financing stabilization	**-**	6,123
Parks and recreation program facilities	**1,000**	1,000
Refuse disposal purposes	**430**	3,451
Debenture repayment	**4,840**	5,000
Contingencies	**30,347**	31,869
Other	**194**	-
	50,027	60,553
Reserve funds set aside for specific purposes by Council		
Insurance	**22,204**	12,526
Sick pay benefits	**11,241**	13,867
Other employee benefits	**9,715**	-
Parks and recreation program facilities	**4,183**	3,060
Pollution control	**44,118**	33,457
Refuse disposal purposes	**43,224**	-
Property settlement	**8,674**	7,925
Metro Hall	**43,905**	15,048
Other	**691**	326
	187,955	86,209
Reserve funds set aside for specific purposes by legislation, regulation or agreement		
Lakeview Sewage Treatment Plant Contingency	**148**	140
	188,103	86,349
	$238,130	$146,902

12. CAPITAL FINANCING STABILIZATION RESERVE

A Capital Financing Stabilization Reserve has been established to stabilize revenue fund contributions for capital expenditure. The current policy of Council for financing capital expenditures net of external financing and surplus sinking fund monies is to provide up to 50 per cent of the required financing by a current levy, the balance being provided from debenture proceeds. If the annual current levy produces funds greater or lesser than the foregoing guideline, such difference is transferred to or from the Reserve.

Net capital expenditures in 1988 to be financed up to 50 per cent by the current levy in accordance with this policy amounted to $66,531,000. The 1988 current levy provided the sum of $55,725,000 and accordingly the full amount available in the Capital Financing Stabilizing Reserve in the sum of $6,123,000 was utilized towards the current contribution financing of the net capital expenditures for the year. The balance of $4,683,000 will be financed by a future debenture issue.

13. PUBLIC LIABILITY INSURANCE

The Municipality of Metropolitan Toronto is a participant in the Metropolitan Municipalities' Group Liability program for which Trust Funds have been established and are administered by the Municipality of Metropolitan Toronto. In addition, the Municipality has established an Insurance Reserve Fund to meet losses in certain defined categories.

Settlement of claims is financed as follows:

First $10,000	Insurance reserve fund
$10,000 - $10,000,000	Trust funds
$10,000,000 - $25,000,000	Outside insurers
Excess of $25,000,000	Insurance reserve fund

At the end of the year, the estimated liability for all claims reported and not settled to be financed by the Insurance reserve fund was $3,565,000. The balance of the Fund in the sum of $22,204,000 is considered adequate for this purpose and is, in any event, subject to ongoing review.

14. CONTRACTUAL OBLIGATIONS

(a) Metro Hall

The Metropolitan Council, in 1988, approved capital expenditures in the sum of $210,760,000 for the purpose of the construction of Metro Hall, a distinct and identifiable headquarters for the Metropolitan Corporation, with occupancy planned for 1992. Council further approved that such capital expenditures be financed by the issue of debentures having a term not exceeding 10 years and in an amount of $210,760,000 less the total of amounts available in the Reserve Fund for Capital Costs of Metro Hall.

The Reserve Fund for Capital Costs of Metro Hall was created by Metropolitan Council in 1987. In 1988, the sum of $30,000,000 (1987 - $15,000,000) was trasferred to the Reserve Fund from current operations. The 1989 Operating Budget contains a provision for an additional contribution of $30,000,000. The balance of the Reserve Fund was $43,905,000 as at December 31, 1988 (1987 - $15,048,000).

(b) Domed Stadium

Metropolitan Council, in 1985, approved a contribution towards the capital cost of construction of a domed stadium in a total amount not to exceed the lesser of $30,000,000 or 20 per cent of the total cost of the project. This contribution was approved as a current expenditure to be financed over a period of five years commencing in 1985 through the establish nent and maintenance of a reserve fund, with provision being made annually in the current estimates. An amount of $22,100,000 has been contributed to December 31, 1988 and a further contribution of $7,900,000 will be made in 1989.

In addition, Council adopted as policy that it would not be responsible for any operating costs or financial losses of the stadium, nor provide any grants to related organizations.

15. BUDGET FIGURES

Budgets established for capital funds, reserves and reserve funds are compiled on a project-oriented basis, the activity in regard to which may occur over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have therefore not been reflected on the Statement of Operations.

16. COMPARATIVE FIGURES

Certain of the 1987 figures presented here for comparative purposes have been restated to conform with the current year's presentation.

ANALYSIS OF CURRENT OPERATIONS
ANALYSIS OF CAPITAL OPERATIONS
ANALYSIS OF RESERVES AND RESERVE FUNDS

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CURRENT OPERATIONS
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988 Budget	1988 Actual	1987 Actual
Surplus at beginning of year	$ 57,713	$ 57,713	$ 52,626
Revenue			
Taxation and user charges			
Requisition on local municipalities	2,142,099	2,143,192	2,026,108
Less school board requisition	(1,379,337)	(1,379,891)	(1,299,401)
User charges	212,005	219,504	192,857
Grants			
Government of Canada	1,888	1,649	1,883
Province of Ontario	643,448	646,194	576,765
Other			
Investment income	18,700	19,629	21,298
Fines	42,140	42,730	30,307
Other	14,184	20,340	15,333
	1,695,127	1,713,347	1,565,150
Expenditure			
General government	116,973	116,272	100,673
Protection to persons and property	444,064	439,345	409,511
Transportation services	273,928	267,006	241,281
Environmental services	168,390	176,384	154,174
Health services	54,826	55,062	49,138
Social and family services	589,509	580,786	508,226
Recreation and cultural services	91,345	89,934	85,003
Planning and development	13,805	13,107	12,057
	1,752,840	1,737,896	1,560,063
Surplus at end of year	$ -	$ 33,164	$ 57,713

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CAPITAL OPERATIONS
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988	1987
Unexpended capital financing (Capital operations not yet permanently financed) at beginning of year	$ 6,388	$(28,798)
Financing		
Contributions from current operations	85,386	74,479
Contributions from reserves and reserve funds	14,460	10,718
Long term liabilities incurred	32,400	91,048
Ontario grants	112,798	128,235
Other	30,252	25,607
	275,296	330,087
Expenditure		
General government	57,217	1,095
Protection to persons and property	31,693	42,148
Transportation services	154,472	172,906
Environmental services	76,808	43,456
Health services	6,414	5,624
Social and family services	15,378	15,141
Recreation and cultural services	11,989	14,492
Planning and development	199	39
	354,170	294,901
Unexpended capital financing (Capital operations not yet permanently financed) at end of year	$(72,486)	$ 6,388

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988	1987
Balance at beginning of year	**$146,902**	$104,876
Revenue		
Contributions from current operations	**61,256**	53,678
Contributions from capital operations	**-**	4,205
Contributions from others	**59,204**	10,697
Interest earned	**11,335**	5,564
	131,795	74,144
Expenditure		
Transfers to current operations	**3,682**	278
Transfers to capital operations	**14,460**	10,718
Other charges	**22,425**	21,122
	40,567	32,118
Balance at end of year	**$238,130**	$146,902

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS (continued)
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988	1987
Analyzed as follows:		
Reserves		
Exchange stabilization	$ 4,360	$ 4,360
Replacement of equipment	4,739	5,269
Sick pay benefits	4,117	3,481
Capital financing stabilization	-	6,123
Parks and recreation program facilities	1,000	1,000
Refuse disposal purposes	430	3,451
Debenture repayment	4,840	5,000
Contingencies	30,347	31,869
Other	194	-
	50,027	60,553
Reserve Funds		
Insurance	22,204	12,526
Sick pay benefits	11,241	13,867
Other employee benefits	9,715	-
Parks and recreation program facilities	4,183	3,060
Pollution control	44,118	33,457
Refuse disposal purposes	43,224	-
Property settlement	8,674	7,925
Metro Hall	43,905	15,048
Contingencies	148	140
Other	691	326
	188,103	86,349
Balance at end of year	$238,130	$146,902

THE MUNICIPALITY OF METROPOLITAN TORONTO · 1953 ·

METROPOLITAN TORONTO WATERWORKS SYSTEMS

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030
Fax: (416) 392-3754

Allan G. Andrews, C.A., *Metropolitan Auditor*

March 28, 1989

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the balance sheet of the Metropolitan Toronto Waterworks System as at December 31, 1988 and the statements of current operations, capital operations, and reserves and reserve fund for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Metropolitan Toronto Waterworks System as at December 31, 1988 and the results of its operations in accordance with generally accepted accounting principles for Ontario municipalities applied, after giving retroactive effect to the change in accounting policy as explained in note 3, on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN TORONTO WATERWORKS SYSTEM

BALANCE SHEET
DECEMBER 31, 1988

ASSETS	1988	1987
Current assets		
Funds on deposit with the Municipality of Metropolitan Toronto	$ 28,247	$ 33,247
Accounts receivable (note 4)	14,525	14,830
Inventories	1,127	508
Other	546	661
	44,445	49,246
Investment - easement reserve fund	-	95
Capital outlay financed by long term liabilities and to be recovered in future years (note 3)	41,215	54,772
	$ 85,660	$ 104,113

see accompanying notes

dollars in thousands

LIABILITIES AND FUND BALANCES	1988	1987
Current liabilities		
Due to Municipality of Metropolitan Toronto (note 7)	$ 7,864	$ 6,228
Accounts payable and accrued liabilities	6,672	6,155
Other (note 4)	3,177	3,300
	17,713	15,683
Net long term liabilities (note 3, 8)	41,215	54,772
Fund balances at end of year		
Unexpended capital financing	4,462	14,293
Reserves and reserve fund (note 10)	22,270	19,365
	$ 85,660	$ 104,113

METROPOLITAN TORONTO WATERWORKS SYSTEM

STATEMENT OF CURRENT OPERATIONS
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988 Budget	1988 Actual	1987 Actual
Revenue			
Sale of water	$70,311	$73,282	$74,304
Investment income	1,910	2,852	2,314
Sale of land	3,596	3,313	143
Other	410	398	785
	76,227	79,845	77,546
Expenditure			
Water supply	13,830	14,419	13,353
Power and pumping	16,802	18,000	16,807
Water transmission and distribution	4,259	4,042	4,076
Administration	17,514	16,537	15,878
	52,405	52,998	50,114
Principal payments and interest charges on long term debt (note 9)	15,695	15,414	17,822
Capital expenditures from current revenue	666	569	382
	68,766	68,981	68,318
Net revenue for the year	7,461	10,864	9,228
Transfer to reserves	(3,000)	(3,000)	(3,000)
Transfer to Municipality of Metropolitan Toronto (note 7)	(4,461)	(7,864)	(6,228)
Accumulated net revenue, end of year	$ -	$ -	$ -

see accompanying notes

METROPOLITAN TORONTO WATERWORKS SYSTEM

STATEMENT OF CAPITAL OPERATIONS
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988	1987
Unexpended capital financing at beginning of year	**$ 14,293**	$ 14,037
Financing		
Contributions from current operations	569	383
Contributions from reserve fund	104	-
Ontario grants	945	846
Surplus sinking fund monies	2,252	4,726
	3,870	5,955
Expenditure	**13,701**	5,699
Unexpended capital financing at end of year	**$ 4,462**	$ 14,293

see accompanying notes

METROPOLITAN TORONTO WATERWORKS SYSTEM

STATEMENT OF RESERVES AND RESERVE FUND
YEAR ENDED DECEMBER 31, 1988

dollars in thousands

	1988	1987
Balance at beginning of year	**$19,365**	$16,357
Revenue		
Contributions from current operations	**3,000**	3,000
Interest earned	**9**	8
	3,009	3,008
Expenditure		
Transfers to capital operations	**104**	-
Balance at end of year	**$22,270**	$19,365

see accompanying notes

METROPOLITAN TORONTO WATERWORKS SYSTEM

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

1. FINANCIAL ADMINISTRATION

The Municipality of Metropolitan Toronto Act requires the Waterworks System to be self-sustaining. The Act, as amended, also permits the use of waterworks system surplus funds for the financing of water pollution control works.

The revenues, expenditures, assets and liabilities of the System are accounted for separately from the operations of the Municipality. For administrative convenience, staff of the System are employed by the Municipality, but all employee costs are charged directly to the System. The Municipality also provides working capital, temporary funding for capital works and issues debentures on behalf of the System if or when required. Debt servicing requirements of these debentures are repaid by the System to the Municipality and charged against operating revenues of the System.

2. ACCOUNTING POLICIES

(a) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Charges for long term liabilities

Revenues and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(c) Fixed assets

The historical cost and accumulated depreciation of fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Current Operations in the year of acquisition.

(d) Capital outlay financed by long term liabilities and to be recovered in future years

"Capital outlay financed by long term liabilities and to be recovered in future years", as reported on the Balance Sheet, represents the outstanding principal portion of unmatured long term liabilities for capital expenditures.

(e) Liabilities payable in foreign currencies

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rate prevailing at December 31, 1988.

(f) Inventories

Inventories are valued on the first-in, first-out basis.

3. CHANGE IN ACCOUNTING POLICY

In prior years, long term debt payable in foreign currencies was reported based upon the rates of exchange prevailing at the time the liability was incurred. In 1988, as prescribed by the Ministry of Municipal Affairs, long term debt payable in foreign currencies has been recorded at the year end exchange rate.

This change in accounting policy resulted in an increase in net long term liabilities and capital outlay financed by long term liabilities and to be recovered in future years of $3,381,000 (1987 - $7,379,000). There is no effect on the Statement of Operations. Prior year's amounts have been restated to give effect to the change.

4. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $3,177,000 in 1988 (1987 - $3,300,000) are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other Current Liabilities".

5. PENSION AGREEMENT

(a) Ontario Municipal Employees Retirement Fund

The Metropolitan Waterworks System makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of approximately 300 members (71%) of its staff. This plan is a defined benefit plan and specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to OMERS for current service in 1988 was $544,000 (1987 - $508,000) and is included as an expenditure on the Statement of Current Operations.

The latest actuarial valuation conducted at January 1, 1988, indicates that OMERS is in sound financial condition and that current member and employer contribution rates appear sufficient to fund future benefits.

(b) Metropolitan Toronto Pension Fund

The Metropolitan Waterworks System also participates in the Metropolitan Toronto Pension Fund that provides pensions based on length of service and final average earnings.

The amount contributed to this plan for current service in 1988 was $191,000 (1987 - $206,000) and is included as an expenditure on the Statement of Current Operations.

Actuarial estimates indicate that, based on projections of employees' compensation levels to time of retirement, the present value of the unfunded obligations for pension benefits relating to past service was $624,000 as at December 31, 1988 (1987 - $775,000). This balance is being funded by equal annual instalments of $156,000 over the period 1989 to 1992.

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. Expenditure for past service of $155,000 was made in 1988 (1987 - $204,000) and is reported on the Statement of Current Operations.

6. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Metropolitan Waterworks System.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $,1,972,000 (1987 -$1,986,000) at the end of the year. An amount of $176,000 (1987 - $134,000) was paid to employees who left the employment of the System during the current year.

In order to provide for this past service liability the Metropolitan Waterworks System participates in a Corporate Sick Pay Reserve Fund established by the Municipality of Metropolitan Toronto for this purpose. Contributions to this reserve fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time and will amount to $77,000 annually over the next nine years.

During 1988, the contributions to the reserve fund by the Metropolitan Waterworks System amounted to $53,000. At December 31, 1988, the balance of the Corporate Sick Pay Reserve Fund was $11,241,000 (1987 - $13,867,000).

Anticipated payments over the next five years to employees of the System who are eligible to retire are as follows:

1989	$ 96,000
1990	102,000
1991	108,000
1992	112,000
1993	116,000

7. TRANSFER OF ACCUMULATED NET REVENUE

Metropolitan Council approved the transfer of the balance of accumulated net revenue at the credit of the System to a Reserve Fund for Water Pollution Control Measures, under the jurisdiction of the Municipality of Metropolitan Toronto, to be applied to expedite and finance water pollution projects identified in annual budget reviews. The level of this Reserve Fund and future transfers of water supply surplus funds will be subject to ongoing review by Metropolitan Council. At the end of the year, accumulated net revenue amounting to $7,864,000 (1987 - $6,228,000) was transferred to the Reserve Fund.

8. NET LONG TERM LIABILITIES

(a) The net long term liabilities reported on the Balance Sheet are made up of the following:

	dollars in thousands	
	1988	1987
Principal amount of long term liabilities outstanding	**$122,388**	$141,054
Less value of sinking funds accumulated to retire outstanding long term liabilities	**81,173**	86,282
Net long term liabilities	**$ 41,215**	$ 54,772

(b) Net long term liabilities - future redemption

Principal payments of the net long term liabilities reported in (a) of this note are as follows:

	dollars in thousands
1989 to 1993	$14,132
1994 to 1998	11,238
1999 to 2001	932
	26,302
Interest to be earned on sinking funds	14,913
	$41,215

(c) Translation of net long term liabilities payable in foreign currencies

Included in the total of $41,215,000 is US$28,697,000 of net long term liabilities payable in U.S. funds translated into Canadian funds at the exchange rate prevailing at December 31, 1988.

9. CHARGES FOR NET LONG TERM LIABILITIES

Total charges for the year for net long term liabilities which are reported on the Statement of Current Operations are as follows:

	dollars in thousands	
	1988	1987
Principal payments including contributions to sinking funds	**$ 4,477**	$ 4,109
Interest	**11,985**	13,713
	16,462	17,822
Less surplus sinking funds applied	**1,048**	-
	$15,414	$17,822

10. RESERVES AND RESERVE FUND

The total balance of reserves and reserve funds of $22,270,000 (1987 -$19,365,000) is made up of the following:

	dollars in thousands	
	1988	1987
Reserves		
Exchange stabilization	**$ 628**	$ 628
Capital financing stabilization	**11,642**	8,642
Water rates stabilization	**10,000**	10,000
	22,270	19,270
Reserve Fund		
Easement	**-**	95
Balance at end of year	**$22,270**	$19,365

a) Capital financing stabilization reserve

A Capital Financing Stabilization Reserve has been established to stabilize current fund contributions for capital expenditure. The present policy of Council for financing capital expenditures net of external financing and surplus sinking fund monies is to provide up to 50 per cent of the required financing by an annual provision in the operating budget, the balance being provided from debenture proceeds. If such annual provision produces funds greater or lesser than the foregoing guideline, such difference is transferred to or from the Reserve.

b) Reserve for stabilization of water rates

Metropolitan Council, on September 20, 1985, approved the creation of a Reserve for Stabilization of Water Rates, commencing in 1985, for the purpose of absorbing any future potential loss which could be experienced under extremes of adverse weather or operating conditions.

11. COMPARATIVE FIGURES

Certain of the 1987 figures presented here for comparative purposes have been restated to conform with the current year's presentation.